

MYTHS THAT KEEP PEOPLE HUNGRY

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By

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Some time ago, my wife and I spent a year travelling through Eastern Europe, the Middle East, and the Far East. In country after country we were deeply impressed by the striking contrast between the facts, as they appeared to us, and the ideas about the facts held by intellectuals.

Wherever we found any large element of individual freedom, some beauty in the ordinary life of the ordinary man, some measure of real progress in the material comforts at his disposal, and a live hope of further progress in the future—there we also found that the private market was the main device being used to organise economic activity. Wherever the private market was largely suppressed and the state undertook to control in detail the economic activities of its citizens (wherever, that is, detailed central economic planning reigned)—there the ordinary man was in political fetters, had a low standard of living, and was largely bereft of any conception of controlling his own destiny. The state might prosper and accomplish mighty material works. Privileged classes might enjoy a full measure of material comforts. But the ordinary man was an instrument to be used for the state's purpose, receiving

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—EUGENE BLACK

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no more than necessary to keep him docile and reasonably productive.

By contrast, the intellectuals everywhere took it for granted that capitalism and the market were devices for exploiting the masses, while central economic planning was the wave of the future that would set their countries on the road to rapid economic progress. I shall not soon forget the tongue-lashing I received from a prominent, highly successful, and extremely literate Indian manufacturer when I made remarks that he correctly interpreted as criticism of India's detailed central planning. Or the numerous discussions with professors at government-supported universities in India, where I was told again and again that in a country as poor as India it was essential for the government to control imports, domestic production, and the allocation of investment in order to assure that *social* priorities and not the market demand for luxuries dominated. Many of these discussions took place in comfortable university guest-houses, or relatively luxurious seminar rooms or lounges well shielded from the nearby hovels where the common people live. One even took place in the magnificent Ashoka Hotel in New Delhi, a showplace built by the government. Yet not once was any question raised about the appropriateness of the "social priorities" reflected in the allocation of governmental funds for these amenities.

I remember, also, the attitude of an audience at the University of Malaya in Kuala Lumpur. They listened politely, though with clear signs of rising hostility, as I expounded the merits of the market and the demerits of central planning for underdeveloped countries. The one remark that brought down the house was by the Malay chairman—the head of the economics department of the university. India's current difficulties, he instructed me, were not the result of central planning but rather of the suppression of India by colonialism (this nearly two decades after Indian independence).

A few examples show how clear the facts are. East and West Germany provide almost a controlled scientific

experiment. Here are people of the same blood, the same civilization, the same level of technical skill and knowledge, torn asunder by the accidents of warfare. On the one side of the frontier, communism, tyranny, and misery; on the other, capitalism, freedom, and affluence.

Even two communist countries, Russia and Yugoslavia, offer a similar contrast. Russia is far more closely controlled from the centre; private property and a moderately free market have almost no scope. In agriculture only 3 per cent of the cultivated area is in private plots whose produce the owners are free to market privately—though this 3 per cent produces one-third of the total agricultural output of the Soviet Union. In industry there is no legal scope at all for private activity, though apparently there is substantial blackmarket activity. In Yugoslavia, on the other hand, the great bulk of agricultural land is privately owned, there are many private handicrafts, and a deliberate attempt has been made to decentralize industry. Yugoslavia is far from free and its ordinary people are far from affluent by Western standards. Yet it strikes the traveller as a paradise in both respects compared with Russia.

As it happened, we went from Russia directly to Yugoslavia, and both our departure from Russia and our arrival in Yugoslavia emphasized the contrast. On our way to the airport in Moscow, we had an Intourist guide assigned to us, as we had at every arrival and departure in Russia. This one turned out to be a young man who was in his final year of studies in American and English literature at the university. After desultory discussion of authors, I asked him what he was going to do after he finished school. "I do not know," he replied; "they haven't decided yet where I can be most useful"—no annoyance at having his career decided for him, simply a matter-of-fact statement. Three key questions were asked us as we went through the formalities for embarkation: "Are you taking any papers or letters out for any Russian?" "Do you have relatives in Russia?" "Did you visit anyone except as arranged by Intourist?" Having truthfully

answered no, we **were** permitted to embark on a plane headed for Accra via Belgrade and carrying mostly **Ghana**ians, returning home after **an** extended stay in Russia for military training. (To judge by the unrestrained comments of our seatmates, whatever the stay might have added to the military effectiveness of the Ghanaians, it had certainly inspired strong hostility toward the Russians and a heightened admiration of the West).

When we landed in Belgrade, questions by the authorities were strictly perfunctory. What surprised us even more, after our Russian experience, was the absence of any governmental official to meet and shepherd us. We were left on our own, much to our great delight. Without difficulty we were able to wangle, for a modest side payment, a ride into town on the one vehicle that was going there. The dinars for the payment were advanced to us at the hotel where we had privately made reservations. (In Russia, we had been required to pay in full in advance and did not know what hotel we were to stay in until informed by Intourist on arrival).

In the middle east, Israel and Egypt offer the same contrast as West and East Germany; in the Far East, Malaya, Singapore, Thailand, Formosa, Hong Kong, and Japan—all **relying** primarily on free markets—are thriving and their people full of hope, a far call from India, Cambodia, Indonesia, and Communist China—all relying heavily on central planning.

We were struck most forcibly by the contrast between facts and ideas in Malaysia. This country is a testimonial to the potentialities of competitive capitalism. Singapore, which was still part of Malaysia when we were there, was built on free trade. It has a vigorous industry and the standard of living of the ordinary Chinese or Malay citizen is many times higher than in neighbouring Indonesia or nearby India. Malaya itself was mostly an unsettled jungle three-quarters of a century ago. Today it is an attractive **country** with widespread cultivated areas. The standard of life of its citizens though somewhat lower than that of Singapore, is much higher than that of its

other neighbours. Rubber and tin are its main export crops. Yet rubber is not even native to Malaya. The rubber tree was imported by private enterprises from South America; the tin mines were **developed** entirely by private concerns.

Malaysia, now independent, is in the process of deciding what economic policy to follow. Its own past offers one example. **Its** populous neighbours, Indonesia and India, offer another. Both have embraced widespread and detailed central planning, with results that are as **depress**ing as they are clear. In Indonesia, the standard of living and the condition of the ordinary man has clearly deteriorated in the nearly two decades since independence—a major factor in the political turmoil. In India, the situation is only a little better.

Which example does Malaysia propose to follow? **If** the intellectuals **have** their **way**, as it appears they will, the new nation will follow India and Indonesia. The chairman of my meeting at the university, his colleagues, and the civil servants had no doubt that it was they who should control the direction of investment and development. A central bank had been established and a government development agency was already making long-range plans. A World Bank mission headed by Jacques Rueff of France, a liberal in the nineteenth century sense, had nonetheless bowed sufficiently to the temper of the times to recommend tariff protection, government development subsidies, and other measures of central planning. How clear it is that the world is ruled by ideas—not facts—and that ideas can for long periods live a life of their own, little affected by the facts.

Japan offers another striking example of the **importance** of ideas and the intellectual climate—less **present**-day Japan than its experience a century ago. We were much impressed by modern Japan: by the high level of income, its wide distribution, and its rapid growth; the aesthetic content of everyday life and common household goods; the dignity of the Japanese people, and their courteous hospitality to the visitor.

A century ago, just prior to the Meiji restoration in 1868, the situation of Japan was very different. Japan had experienced centuries of deliberate and enforced isolation from the rest of the world. Though by no means completely stagnant, Japan's social and economic structure had altered little in that time, and it had fallen far behind the advanced Western countries in scientific knowledge and productive techniques.

There is a remarkable parallel between Japan just after the Meiji restoration and India after it achieved independence eight decades later in 1948. In both cases a major political change permitted drastic alteration in economic arrangements and the rigid class relations among men. In both cases the political change placed in power a group of able and patriotic men determined to convert prior economic stagnation into rapid economic progress—though for somewhat different objectives. In both cases, these events occurred in countries with ancient cultures and a high artistic and literary civilization. And in both cases the countries were technologically far behind the leading economic powers of the time. Both had an opportunity to make major economic gains by using techniques developed at great cost in the West.

There were also, of course, differences—mostly favouring India. India's physical resources are distinctly superior to Japan's except only for the sea around Japan, with its easy transportation and potential supply of food. Japan had been almost completely out of touch with the rest of the world; India had had extensive and widespread contact. The British, moreover, left India an excellent rail-road system, many factories, much physical equipment, and—even more important—functioning political institutions, numerous skilled administrators, and many men trained in modern industrial techniques. In my own contacts, the top Indian civil servants impressed me as man-for-man the ablest people in any civil service with which I have had experience—including the American. True, they are few and there is a tremendous gap between them and lower-level civil servants, but progress in any area has always depended on small numbers of people.

Finally, in the years since 1948, the rest of the world has made available to India—largely as gifts—an enormous volume of resources, roughly equal to a quarter of India's total capital formation. Japan had no comparable advantage. The closet parallel was the fortuitous failure of the European silk crops in the early years of the Meiji restoration, which enabled Japan to earn more foreign exchange by silk exports than she otherwise could have earned. Japan herself financed the training of Japanese abroad and the importation of foreigners with technical skills. During the whole of the first half-century after the Meiji restoration, Japan had not only no net grants from abroad, but not even any net capital import; she provided the whole of her own capital from domestic sources.

There is a widespread tendency to attribute India's difficulties to its social institutions, the character of its people, and the climatic conditions under which they live. Religious taboos, the caste system, a fatalistic philosophy are said to imprison the society in a straitjacket of tradition; the people are thought to be unenterprising and slothful. I find it impossible to accept any of these explanations. The Indians who have migrated to Africa or to Southeast Asia have in country after country formed a major part of the entrepreneurial class, and have often been the dynamic element initiating and promoting progress. In the Punjab, an industrial revolution is taking place in towns like Ludhiana with thousands of small and medium-size workshops, reproducing, or so it seemed to me, the experience of Manchester and Birmingham at the end of the eighteenth century. There is no shortage of enterprise, drive, or technical skill; on the contrary, there is a self-confident, strident capitalism bursting at the seams.

For a nation to progress, it is not necessary for every individual to be an enterprising, risk-taking economic man. The history of every developed nation shows that a tiny percentage of the community sets the pace, undertakes the path-breaking ventures, and coordinates the economic activity of hosts of others. Most people every-

where are hewers of wood and drawers of water. But their hewing of wood and drawing of water is made far more **productive** by the activities of the minority of industrial and commercial innovators, and the much larger but still small number of imitators. I have no doubt whatever that India has an adequate supply of potential entrepreneurs, both innovators and **imitators**. The appearance of sloth and lack of enterprise is surely a reflection of the absence of rewards for different behaviour, not a reason; the fatalistic philosophy is more likely an accommodation to stagnation, not a cause.

Many early foreign residents in Japan reported similar impressions. Wrote one: "Wealthy we do not think it (Japan) will ever become: the advantages conferred by Nature, with the exception of the climate, and the love of indolence and pleasure of the people themselves forbid it. The Japanese are a happy race, and being content with little are not likely to achieve much." Wrote another: "In this part of the world principles, established and recognised in the West, appear to lose whatever virtue and vitality they originally possessed and to tend fatally towards weediness and corruption." They were wrong and so too, in my opinion, are those who are similarly pessimistic about India.

Although the circumstances of Japan in 1868 and India in 1948 were highly similar and the opportunities much the same, yet the outcome was **vastly** different. In Japan there was a thorough dismantling of the feudal structure, vast extension of social and economic opportunity, rapid economic growth, and widespread improvement in the lot of the ordinary man-though, unfortunately, nothing approaching real democracy in the political sphere. In India there was much lip service to the elimination of caste barriers yet shockingly little actual progress; differences in income and wealth between the few and the many have widened not narrowed; economic output per *capita* has been nearly stationary; and there has probably been an actual deterioration in the standard of life of the poorest third of the population. With **all** this has come a growing network of deadening **and** restrictive controls.

Why the difference in results? I believe the contrast between the two countries **reflects** primarily the difference in the techniques of economic organization adopted, though no doubt other factors played some part. Japan followed essentially a free-market policy, taking the Britain of its time as its model. True, the state intervened **in** many and diverse ways, and played a key role in the process of development. It subsidized the technical training of many Japanese and the importation of foreign experts, established pilot plants in many industries, and gave numerous subsidies.

Yet at no time did it ever try to control the total amount or direction of investment or the structure of output. It sold off most of its pilot plants to private firms within a few years. The state maintained a **large** interest only in shipbuilding and iron and steel, industries that it deemed necessary to build military power. It retained even these industries only because they were not attractive to private enterprise and required heavy government subsidies. These subsidies were a drain on Japanese resources. They impeded rather than stimulated Japanese economic progress. Finally, by international treaty, Japan was prohibited during the first three decades after the **Meiji** restoration from imposing tariffs higher than 5 per cent. This restriction was an unmitigated boon to Japan, though naturally it was resented at the time, and tariffs were imposed after the treaty prohibitions expired.

India has followed a very different policy. Its leaders, schooled in the doctrines of Fabian socialism and central planning, have regarded capitalism as synonymous with imperialism, to be avoided at all costs. They have taken Russia as their model and embarked on a series of five-year plans with detailed programmes of investment allocated between government and private firms and among industries. Certain areas of production are reserved to government. Tariffs, quotas, and subsidies to exports are widely used to shape foreign trade. When exchange difficulties arose, detailed and extensive exchange control was

imposed. The Indian government controls wages and prices, prohibits private enterprises from building factories or making other investments without government permits, and levies taxes that are highly graduated on paper though largely evaded in practice.

Reliance on the market in Japan released hidden and unsuspected resources of energy and ingenuity, prevented vested interests from blocking change, and forced development to conform to the harsh test of efficiency. Reliance on governmental controls in India frustrates initiative or diverts it into wasteful channels, protects vested interests from the forces of changes; and substitutes bureaucratic approval for market efficiency as the criterion of survival.

An instructive specific example is the different experience with home-made and factory-made textiles in the two countries. Both Japan and India had extensive production of textiles in the home at the outset of their development. In Japan home production of silk was for long little affected, but home spinning of cotton, and later, hand-loom weaving of cotton cloth, unable to meet the competition of foreign spun yarn and factory-made cloth, were all but wiped out. A Japanese factory industry developed, at first manufacturing only the coarsest and lowest-grade fabrics, but then moving on to higher and higher grades and ultimately becoming a major export industry. In India, hand-loom weaving was subsidized and guaranteed a market, allegedly to ease the transition to factory production. Factory production is growing gradually, yet there is no sign of end to the subsidy. Indeed, hand-loom production is now larger than it was when the subsidy was introduced. Had Japan followed a similar policy, it still would have an extensive home cotton-textile industry — and a drastically lower level of living.

The most dramatic illustration of the waste that has been created by substituting government for market control in India is automobile production. For some time now, the importing of both second-hand and new cars has been prohibited, supposedly to save foreign exchange by reducing "luxury" imports. Naturally the price of second-

hand cars has skyrocketed. When I was in Bombay in 1963, a 1950 Buick—much like one I had sold in New Hampshire a few months earlier for \$22—was selling for \$1,500. The government has licensed the production of new cars, mostly copies of foreign makes. Their manufacture is proceeding in uneconomical small runs and at extremely high cost. India, its government apparently believes, is too poor to use second-hand cars; it must have new ones. I estimated in 1963 that about one-tenth of total American aid was being absorbed in the extra cost to India of getting motor vehicle transportation by building new cars instead of importing used ones—a glaring example of the wastes of conspicuous production.

The tragedy of the industrial revolution in the Punjab lies in this same waste and misdirection. Businessman after businessman told me that one-quarter of his time was usually devoted to getting around governmental restrictions—price control, rationing, and so on. Even more important, the distortion of prices and costs through governmental interventions means that the businessman's energy and ability are being diverted toward doing the wrong things in the wrong ways.

Ironically, the men who took charge of Japan in 1867 were dedicated principally to strengthening the power and glory of their country. They attached no special value to individual freedom or political liberty; on the contrary, they believed in aristocracy and political control by an elite. Their political ideas were the basis for later tragic totalitarian excesses. The men who took charge of India in 1948 had very different ideas. They were ardently devoted to political freedom, personal liberty, and democracy. Their aim was not national power, but improvement in the economic conditions of the masses. Yet it was the Japanese leaders who adopted a liberal economic policy that led to the widening of opportunities for the masses and, during the early decades a great gain in their personal liberty. It was the Indian leaders who adopted a collectivist economic policy that hamstringing their people with restrictions and continues to undermine the large measure

of individual freedom and political liberty encouraged by the British.

The difference in policies reflects faithfully the different intellectual climates of the two eras. In the mid-nineteenth century, liberalism (in its original, not its current American sense) was the dominant view. It was simply taken for granted that a modern economy should be conducted by free trade and private enterprise. It probably never occurred to the Japanese leaders to follow any other course. In the mid-twentieth century, collectivism was the dominant view. It was simply taken for granted that a modern economy should be conducted by centralized control and five-year plans. It probably never occurred to the Indian leaders to follow any other course.

Ideas can for a time lead a life of their own, independent of reality. But sooner or later they must meet the test of evidence. It may be crucial for the fate of mankind that they do so soon.

We, who are fortunate enough to live in the West, take for granted the freedom and affluence we enjoy and regard them as the natural lot of mankind. They **are** not. **They** have been achieved only for brief intervals in the long history of mankind. **At** no time, and certainly not now, have they been achieved by more than a small fraction of the world's population. We have been generous in our material aid to the less fortunate; we have given them a fine set of aspirations and an example of a free and affluent society. But we have also transmitted a climate of opinion hostile to the market arrangements that appear to be a necessary condition for both freedom and **affluence**.

We have a sufficient margin of protection to survive such ideas for a long time. The less-developed nations do not. **In** their failure, they may destroy us as well. The continuing ascendancy of such ideas may doom mankind to a renewed era of universal tyranny and misery.

*The views expressed in **this** booklet are not necessarily the views of the **Forum** of Free Enterprise.*

"Free Enterprise was born with man
and shall survive as long as man
survives."

-A. D. SHROFF
(1899-1965)

Founder-President.
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